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SUBJECT: FSM GOVERNMENT RESPONDS TO COMPACT CRITICISM WITH HURT,
EVASION AND A GLIMMER OF DIALOGUE

REF: KOLONIA 104

¶1. (SBU) Summary. Ambassador Hughes asked to call upon President Mori on July 25 to discuss shortcomings in implementation of requirements of the Amended Compact on the part of the Federated States of Micronesia (FSM). With sorrow, Mori said he felt wounded by the tone of recent communications from the U.S. Department of the Interior, which had received broad distribution within his government and had undermined his political standing. He asserted his ongoing commitment to the reform of Chuuk State. The President asked for special help with fuel, as state utility corporations were running out of cash to import petroleum. On all issues, he spoke in generalities, with no reference to specific performance plans or national strategies. The President agreed to engage in more frequent dialogue on difficulties and progress with the Compact. End Summary.

TONE TRUMPS SUBSTANCE

¶2. In response to a request from Ambassador Hughes, President Emanuel Mori and key members of his Cabinet met on July 25 at FSM headquarters in Palikir to discuss U.S. concerns about FSM shortfalls in fulfilling requirements of the Amended Compact. The meeting lasted over an hour. Also present were Chief of Staff Kasio Mida; Secretary of Finance Finley Perman and Finance Advisor Evelyn Adolph; Director of Statistics, Budget, Overseas Assistance and Compact Management Fabian Nimea; and Department of Foreign Affairs Assistant Secretary Jane Chigiyal.

¶3. (SBU) Quietly and sorrowfully, President Mori said the tone of recent communications from the U.S. Department of the Interior (DOI) had wounded him and his administration. He referred to letters and e-mails that had received broad internal distribution in Palikir and among state governors. Ambassador responded that DOI bore a major responsibility to the U.S. Congress and American taxpayers to ensure that our funds were administered accountably and in compliance with Compact terms. Lack of FSM responsiveness on such fundamentals as budget criteria and performance goals was a serious issue, particularly prior to the annual U.S.-FSM Joint Economic Management Committee (JEMCO) meeting at the end of August. Time was running out, she said, and the FSM National Government (FSMNG) had failed to engage on key, ongoing objectives. She expected the FSM to appreciate the gravity of anticipated Compact funding cuts and to understand U.S. frustration.

¶4. (SBU) Mori did not dispute the substance of U.S. concerns. Instead, he returned repeatedly to the style of recent DOI communications. A letter of July 9 from DOI Office of Insular Affairs Director Nikolao Pula had reached the Governors, members of the FSM Congress and lower ranking FSM officials before he himself received the letter under cover of a diplomatic note. Mori protested what he construed as condescension from "a relatively low ranking U.S. official to the head of a sovereign

nation." Ambassador clarified that Pula was a senior U.S. executive who had signed the letter in his capacity as the DOI Director responsible for Compact implementation and as the distinguished Chairman of JEMCO. Mori remarked that the tone of the letter was inappropriate; it had humiliated him and undermined his political standing with the FSM Congress, which was likely to demand that he answer questions on the perceived diminution of the stature of the Office of the President.

15. Ambassador Hughes agreed that tone and protocol were very important to the success of diplomatic and inter-governmental relationships. In particular, the U.S. Embassy had a role to play to ensure that respectful communication was directed through appropriate channels, and we would redouble our efforts to do this, she said. Difficulties sometimes arose because of the legacy of our Trust Territory history. As a consequence, even after 22 years of FSM independence, some U.S. Government agencies remained used to pursuing their objectives through informal channels. The Embassy and Washington were working hard to try to improve coordination.

16. Mori reminded that when Ambassador had presented her credentials last September, he had emphasized that he sought "to elevate the tone of our relationship with the United States." In general, he felt the two nations had made significant strides. In the case of letters from DOI to himself, however, the President suggested that Secretary Kempthorne would be a more appropriate signatory. He praised the support and relationship he had with the Secretary of the Interior. In general, he said the FSM relationship with DOI was valuable and vital. Ambassador reminded that we were all one U.S. Government, and the Embassy would seek to ensure that all communication was coordinated and satisfactory.

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17. Mori then produced another letter from the U.S. Congress dated July 22, which Ambassador and the U.S. Embassy had unfortunately not received. Ten Congressional representatives had signed the letter, which urged progress in five Compact areas. Mori said simply that he appreciated the eloquent style and usefulness of this letter. He anticipated the FSM could "easily" address all five areas of concern pertaining to the startup of infrastructure construction projects; commitment to maintaining balanced budgets; production of a narrative on how to address the Compact decrement; adherence to Compact reporting deadlines; improvement of performance indicators in health and education; and development of a coherent strategy to promote private sector investment. No one at the meeting offered any information on how the FSM would achieve all these objectives. Mori was apparently referring to the ease of responding to the Congressional letter, rather than satisfying all the contents.

MORI REAFFIRMS CHUUK REFORM BUT LACKS A PLAN

18. Regarding the deepening crisis in Chuuk State, President Mori indicated his "serious concern" following Governor Simina's firing of Director of Administrative Services Gillian Doone on July 11. Ambassador referred to an egregious history of fiscal irresponsibility in Chuuk and stated DOI's intention to shortly cease delivery of funds in three sectors (Capacity Building, Private Sector Development and Environment), unless the FSMNG could restore close and constant supervision of Chuuk finances.

19. (SBU) Mori said he would not try to block DOI's plan. He said he was angry that the Governor had not consulted with him about firing an official whom they had both agreed to appoint. The Governor had subsequently failed to respond to two strong Presidential letters. In his letters, Mori said he had threatened to cut off all FSMNG support to Chuuk unless the Governor identified a capable replacement for Doone and/or provided a stabilization plan. Governor Simina subsequently agreed to meet the President in Chuuk on July 26 and to travel with him by boat the next day to a Mortlocks island leadership conference.

¶10. Mori said he had two possible candidates in mind to replace Doone. Recalling how Simina had agreed to appoint and support Doone, Mori said that in his opinion, the Governor was capable of upholding his commitment to fiscal responsibility, even though he had succumbed to undisclosed political pressure to dismiss Doone. The firing was "a political act," Mori commented. Meantime, he concurred with Ambassador that conditions in Chuuk were deteriorating dangerously. Electricity blackouts of five days running, which further degraded water and sewage, indicated the severity of cash flow and humanitarian problems.

FSM NEEDS HELP WITH ENERGY

¶11. In addition to Chuuk, Mori said the FSM states of Pohnpei and Yap faced crises with fuel payments. He lamented that rising costs associated with fuel were likely to unbalance budgets and push back financial targets across the board. FSM leaders were exploring all options to cope with shortfalls. At a recent Chief Executive Council meeting in Kosrae, President Mori and the Governors agreed to set up one emergency task force on fuel and another on food. However, the chairs of these so-called task forces have not yet been named, Mori said in response to a question from the Ambassador. He asked if the United States could please try to assist with the energy crisis.

¶12. Ambassador responded that the U.S. would certainly consider this emergent need. In addition, she advised that the Chinese Ambassador, who is the dean of the small diplomatic corps in the FSM, had enthusiastically agreed with a suggestion of the U.S. Ambassador to convene monthly meetings with the U.S., Australia and Japan to discuss our assistance programs and encourage donor coordination. China planned to convene the first meeting soon, and would probably be amenable to putting energy at the top of the agenda, Ambassador Hughes said. President Mori and SBOC Director Nimea warmly welcomed the notion of this type coordination.

COMMENT - CRITICISM OPENS A CRACK OF DIALOGUE

¶13. (SBU) Respectful communication is, of course, a fundamental mode of operation wherever Americans serve. In the case of a transitional society, such as the FSM, where traditional values and hypersensitivity to so-called 'colonial' overtones permeate politics, we will need to tread firmly but very carefully at a time of deepening economic and governance challenges. Ambassador explained to President Mori the valid

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reasons for intense U.S. frustration with poor FSM Compact performance, particularly the growing concerns of the U.S. Congress.

¶14. (SBU) However, Mori's attention was focused elsewhere and he declined to engage on specifics. He said he was proud of Compact progress, and he could not afford further problems with the FSM Congress, which elected him and will determine whether he gets a second term of office in three years. His Cabinet appears to be fractured, particularly along lines of FSM state affiliations. Vice President Alik (Kosrae) is rarely seen with the President. When Mori asked why the Vice President was not present at this meeting, no one in the room seemed to know where Alik was. The Finance Secretary (Pohnpei) showed up a half hour late. In the meantime, Mori and a small inner circle of advisors from Chuuk appear to be concentrating their priorities on such ambitious projects as construction of submarine fiber optic cable linkages to Chuuk and Kosrae (estimated cost of USD 40 million); decentralization of FSM passport processing to all four states and FSM diplomatic missions in Washington, Guam and Honolulu (estimated USD 800,000); startup of a national fuel corporation; and purchase of small, Chinese manufactured aircraft to launch a new outer island transportation company (estimated USD 9 million purchase). Communication on these and other issues is confined to a small FSM executive circle.

¶15. (SBU) In the midst of these competing FSM priorities, U.S. Congressional testimony and follow-up correspondence has focused a small but important spotlight on the program that delivers most FSM income and sustains some 65 percent of their government operations. The FSM Congress and the four states have begun to demand a dialogue with the executive branch on Compact implementation. The challenge on the U.S. side will be to continue to press for an examination of Compact issues without fanning nationalist sentiment on the part of the states, which are dissatisfied with Palikir, or fostering passive resistance to well intentioned U.S. guidance, which is a typical FSM reaction to perceptions of foreign intervention. It also behooves the U.S. side to try to analyze, perhaps in dialogue with the Micronesians, the root causes of a failure to absorb more effectively our generous aid and to comply with terms of the Amended Compact. We have a timely opportunity to think outside the box in terms of improving Compact implementation and our partnership with this remote island developing nation.

SIGNATURE